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SUBJECT: USSR:ECONOMIC REFORM

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CONTROLS

~~CONFIDENTIAL~~ MOSCOW 11725

E.O. 12356: DECL: OARD

BODY

TAGS: ECON, UR

SUBJECT: AGANBEGYAN ON ECONOMIC REFORM: / WHILE THE

- PROCESS IS UNDER WAY, THE DESTINATION IS

- UNCLEAR

REFS: (A) MOSCOW 10085, (B) MOSCOW 9034

1. CONFIDENTIAL - ENTIRE TEXT

2. SUMMARY: GORBACHEV'S ECONOMIC ADVISOR, A. A. AGANBEGYAN, FREQUENTLY USED THE TERM "RADICAL REFORM" / IN OUTLINING THE CURRENT PROCESS OF RESTRUCTURING THE SOVIET ECONOMY TO A RECENT SYMPOSIUM OF SOVIET AND AMERICAN ECONOMISTS. / THE GOALS AND MECHANISMS HE DESCRIBED , HOWEVER, SUGGEST THAT THE ESSENTIAL

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ELEMENTS OF THE SOVIET ECONOMIC SYSTEM OF CENTRALIZED CONTROL WILL NOT BE SUBSTANTIALLY ALTERED. AT THE SAME TIME, THE GENERAL TONE OF HIS REMARKS INDICATED CONSIDERABLE IMPATIENCE WITH THE PACE OF THE REFORM PROCESS, A DESIRE TO PUSH THE BUREAUCRACY INTO MOTION THROUGH A RUSH OF DECREES. AMERICAN ECONOMISTS PRESENT AT THE SYMPOSIUM FELT THAT SOVIET ECONOMIC REFORMISTS HAVE THE WIND AT THEIR BACKS AND REFLECT A DESIRE SHOWN AT LEAST BY SOME SENIOR LEADERS TO GET THINGS MOVING SOON; TOO MUCH TIME SPENT THINKING THROUGH THE DETAILS OF THE PROCESS COULD LOSE THEM THEIR MOMENTUM AND BOG DOWN THE CHANGES IN THE BUREAUCRACY. IT REMAINS TO BE SEEN WHETHER THIS INITIAL MOVEMENT CAN BE SUSTAINED LONG ENOUGH AND IF THE SUBSTANCE OF "REFORM" GOES DEEP ENOUGH IN ORDER TO PROVIDE MECHANISMS TO MEET THE AMBITIOUS TARGETS OF THE TWELFTH FIVE-YEAR PLAN. END SUMMARY.

3. WELL-KNOWN SOVIET ECONOMIST ABEL AGANBEGYAN, A LEADING ADVOCATE OF REFORM WHO IS SEEN BY MANY IN THE WEST AS A PRINCIPLE ECONOMIC ADVISOR TO GORBACHEV, SPOKE TWICE AT A RECENT (28 JUNE-3 JULY) SYMPOSIUM JOINTLY SPONSORED BY THE STANFORD RESEARCH INSTITUTE (SRI) AND THE SOVIET INSTITUTE OF WORLD ECONOMICS AND INTERNATIONAL RELATIONS (IMEMO). AGANBEGYAN IDENTIFIED HIMSELF AS THE ACADEMIC SECRETARY OF THE ECONOMICS DEPARTMENT OF THE ACADEMY OF SCIENCES, THUS CLARIFYING HIS INSTITUTIONAL POSITION WHICH HAD BEEN SOMEWHAT VAGUE SINCE HIS MOVE FROM NOVOSIBIRSK TO MOSCOW. REFLECTING THE EXPERTISE OF HIS AUDIENCE, WHICH INCLUDED SUCH U.S. SPECIALISTS AS HERBERT LEVINE AND EDWARD HEWETT, AGANBEGYAN ATTEMPTED AN IN-DEPTH EXPLANATION OF WHERE THE SOVIET ECONOMY IS AND WHERE IT MAY BE GOING, OFTEN USING THE TERM "RADICAL REFORM".

THE NATURE OF ECONOMIC REFORM

4. IN SUMMARIZING THE NEED FOR IMPROVING THE SOVIET ECONOMIC MECHANISM, AGANBEGYAN HIGHLIGHTED THE LAG IN MACHINE-BUILDING AND THE COUNTRY'S OBSOLETE SYSTEM OF MANAGEMENT. CONCERNING MACHINE BUILDING, HE REITERATED THE STANDARD LINE THAT THE ECONOMY NEEDS BETTER LINKS BETWEEN SCIENCE AND TECHNOLOGY IN ORDER TO IMPROVE INTEGRATION OF RESEARCH AND PRODUCTION. AGANBEGYAN ALSO TOLD HIS WESTERN COLLEAGUES THAT IN UNDERTAKING THIS PROCESS, THE USSR IS OPEN TO NEW FORMS OF COOPERATION.

5. ON THE QUESTION OF REFORMING THE MANAGEMENT SYSTEM, HE STATED THAT RADICAL CHANGES ARE NEEDED, AND THAT THE KEY IS "THE DECISIVENESS OF OUR LEADERS". REFORMS, ACCORDING TO AGANBEGYAN, ARE BEING DRAFTED

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AND SOME MEASURES HAVE ALREADY BEEN ADOPTED. HE ADMITTED THAT THERE ARE SOME LIMITATIONS TO CHANGE AND EVERYTHING IS NOT CLEAR, BUT THE MAIN DIRECTIONS OF THE PROCESS HAVE BEEN DEFINED. THE SOVIETS, HE CONTENDED, ARE DETERMINED TO INTRODUCE NEW ECONOMIC MECHANISMS SINCE THE FULFILLMENT OF THE NEW FIVE-YEAR PLAN IS PREDICATED ON ABANDONING THE OLD TECHNIQUES. IN THIS AREA, AGANBEGYAN STRESSED THE HUMAN FACTOR, CALLING FOR A NEW TYPE OF WORKER AND MANAGER WHICH WILL REQUIRE RETRAINING OF PERSONNEL, YOUNGER PERSONNEL, REFRESHER COURSES, EDUCATIONAL REFORM AND HIGHER STANDARDS OF WORK ATTITUDES.

6. A CENTRAL IDEA IN SOVIET ECONOMIC REFORM AS SEEN BY AGANBEGYAN IS ELIMINATING THE DICTATORSHIP OF THE PRODUCER, THEREBY DOING AWAY WITH SHORTAGES. IN HIS VIEW, THE PRODUCER NEEDS TO BE SUBORDINATE TO THE CONSUMER. A DERIVATIVE OF THIS VIEW IS THE
C O N F I D E N T I A L SECTION 02 OF 04 MOSCOW 11725

E.O. 12356: DECL: OARD

TAGS: ECON, UR

SUBJECT: AGANBEGYAN ON ECONOMIC REFORM: WHILE THE

NEED TO CONSIDER THE CLOSING OF NON-COMPETITIVE FIRMS. THE CLOSURE OF ENTERPRISES IS, IN AGANBEGYAN'S VIEW, STILL AN OPEN AND DIFFICULT QUESTION BUT IS NOW BEING DISCUSSED. THE CONCEPT OF CLOSING IS SLOWLY GAINING SOME ACCEPTANCE, HE FELT. SEVERAL RESEARCH INSTITUTES HAVE BEEN ELIMINATED, AND REORGANIZATION OF THE AGRICULTURAL SECTOR HAS RESULTED IN CLOSING 40 PERCENT OF ITS SUBDIVISIONS. NO DECISION HAS BEEN MADE ON CLOSING PRODUCING ENTERPRISES AS YET.

THE REFORM PROCESS

7. LIKE OTHER KNOWLEDGEABLE SOVIET ECONOMISTS (REFTEL A), AGANBEGYAN EMPHASIZED THAT THE COMMISSION ON THE PERFECTION OF MANAGEMENT, PLANNING AND THE ECONOMIC MECHANISM, CHAIRED BY FIRST DEPUTY CHAIRMAN OF THE COUNCIL OF MINISTERS AND GOSPLAN HEAD N.V. TALYZIN, IS THE CENTRAL ENTITY MANAGING THE REFORM PROCESS ON BEHALF OF THE COUNCIL OF MINISTERS. COMMISSION MEMBERS INCLUDE THE MINISTER OF FINANCE, THE HEADS OF THE STATE COMMITTEES FOR LABOR, PRICES, AND MATERIAL SUPPLY (GOSSNAB), MINISTERS INVOLVED IN THE ECONOMIC EXPERIMENTS, AND A VICE PRESIDENT OF THE ACADEMY OF SCIENCES. THE COMMISSION MEETS AN AVERAGE OF TWICE A WEEK, THOUGH LATELY, ACCORDING TO AGANBEGYAN, IT HAS BEEN MEETING MORE FREQUENTLY.

8. IN DISCUSSING THE PROCESS, AGANBEGYAN INDICATED

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THAT TASKS LEVIED ON THE COMMISSION ARE DELEGATED TO GROUPS OF EXPERTS WHO WORK OUT RECOMMENDATIONS FOR REVIEW BY THE COUNCIL OF MINISTERS AND THE CENTRAL COMMITTEE. THESE RECOMMENDATIONS ARE THEN TRANSMITTED TO A SPECIAL MANAGEMENT DEPARTMENT ATTACHED TO THE COUNCIL OF MINISTERS WHICH PROVIDES OPERATIONAL CONTROL FOR PREPARING THE MATERIALS FOR THE COUNCIL'S CONSIDERATION. IN THE CASE OF RECOMMENDATIONS FOR A JOINT RESOLUTION OF THE COUNCIL OF MINISTERS AND THE CENTRAL COMMITTEE, DRAFTS ARE ALSO SENT TO THE ECONOMIC DEPARTMENT OF THE CENTRAL COMMITTEE. IT IS THEN DISCUSSED IN THE SECRETARIAT OR THE POLITBURO FOR FINAL DECISION WHICH MAY RESULT IN A DECREE.

9. AGANBEGYAN ALSO DESCRIBED THE TALYZIN COMMISSION AS RESPONSIBLE FOR MONITORING THE PERFORMANCE AND IMPLEMENTATION OF THE REFORM MEASURES. IN THIS REGARD, REGULAR MEETINGS ON IMPLEMENTATION ARE HELD, OFTEN WITH THE PARTICIPATION OF SCHOLARS ATTACHED TO THE ACADEMY OF SCIENCES.

THE PACE OF REFORM

10. WHILE SPECIFIC TIMING IS NOT CLEAR, AGANBEGYAN SUGGESTED THAT THE "FIRST PHASE" OF THE REFORM PROCESS, WHICH HAS ALREADY BEGUN, MUST BE COMPLETED DURING THE 12TH FYP. MAJOR REFORMS, COVERING PRICES, SUPPLY, AND FINANCIAL/CREDIT MEASURES, SHOULD BE FINISHED, HE FELT, BY 1988. HE STRESSED THAT THE ULTIMATE EFFECT, HOWEVER, WOULD ONLY BE SEEN MUCH LATER; "IT'S A LONG AND HARD PROCESS." AGANBEGYAN CALLED ON HIS WESTERN COLLEAGUES TO "JUDGE US BY DEEDS, NOT WORDS; NOT BY INTERMEDIATE RESULTS, BUT BY THE FINAL OUTCOME." HE CHARACTERIZED THE SATISFACTION OF THE PEOPLE'S NEEDS AND INCREASES IN LIVING STANDARDS AS THE PRIME OBJECTIVES OF ECONOMIC GROWTH. IN DISCUSSING THE PROPER FRAME OF REFERENCE TO MEASURE THE SUCCESS OF REFORM, AGANBEGYAN ASKED HIS WESTERN VISITORS NOT TO EXAGGERATE THE QUANTITATIVE FACTOR. IN HIS VIEW, QUALITY IS ALSO IMPORTANT, PARTICULARLY THE QUALITY OF LIFE AS WELL AS THE COMPETITIVENESS OF GOODS.

OBSTACLES TO REFORM

11. AGANBEGYAN AGREED THAT LOWER LEVEL OFFICIALS AND BUREAUCRATS ARE SKEPTICAL OF THE REFORM PROCESS. HE CONSIDERED THIS PASSIVE RESISTANCE AS INEVITABLE. NOT ONLY FUNCTIONARIES, HE FELT, BUT ALSO MANAGERS ARE USED TO THE OLD WAYS. "POOR MANAGERS DON'T LIKE TO TAKE RISKS AND PREFER TO KEEP ASKING THOSE ABOVE THEM WHAT TO DO." THE MAIN RESISTANCE,

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ACCORDING TO AGANBEGYAN, IS TO INCREASING THE INDEPENDENCE OF FIRMS, SINCE POWER CAN ONLY BE GIVEN TO ONE GROUP BY TAKING IT FROM ANOTHER. REFLECTING ON THE RECENT DECREE AGAINST PERSONS RECEIVING UNEARNED INCOME (REFTEL B), AGANBEGYAN HELD THAT THIS GROUP IS ONE OF THOSE MOST LIKELY TO ACTIVELY RESIST CHANGE. ALL IN ALL, HE FELT ANY REAL TRANSFORMATION OF THE ECONOMY WILL BE DIFFICULT.

THE SUBSTANCE OF CHANGE

12. ENTERPRISE AUTONOMY:

ACCORDING TO AGANBEGYAN, ONE OF THE BASES OF THE REFORM IS AN EXPANSION OF THE RIGHTS OF ENTERPRISES. THE MINISTRIES, HE CONTENDED, HAVE MANY LEVERS TO CONTROL ENTERPRISES: PERSONNEL, STANDARDS, SPECIFICATIONS, NORMS, PRICES. IT IS EASY TO GIVE ORDERS, HE FELT, AND THE MINISTRIES ARE USED TO IT. THEY FIND IT EASIER TO FIRE A MANAGER AND TAKE OVER THE ENTERPRISE WHEN THERE IS A PROBLEM RATHER THAN CHANGE THE WAY THE PLANT IS RUN. THE MINISTRIES, ACCORDING TO AGANBEGYAN, WILL BE FORCED TO ABANDON SUCH PRACTICES THROUGH THREE MEASURES:

-
- A NEW LAW ON THE RIGHTS OF ENTERPRISES TO BE PASSED BY THE SUPREME SOVIET. THIS LAW WILL CANCEL ALL OTHER MINISTERIAL INSTRUCTIONS AND INCLUDE A PROCEDURE FOR ENFORCEMENT. ITS ENFORCEMENT AND IMPLEMENTATION WILL BE MORE IMPORTANT THAN ANYTHING ELSE DONE TO DATE. IT WILL ESTABLISH ENTERPRISES' NEW RIGHTS OPENLY AND CLEARLY SO THAT BUREAUCRATS CANNOT UNDERMINE THEM. MANY OF THE FUNCTIONARIES' PRESENT POWERS WILL BE ABOLISHED; AND SPECIAL MEASURES, INCLUDING LEGAL SANCTIONS, WILL BE DEVELOPED TO PROTECT ENTERPRISES.
- UNSPECIFIED CHANGES IN THE SYSTEM OF NORMS AND INDICATORS.
- ELIMINATION OF CERTAIN MINISTERIAL LINKS WITH ENTERPRISES. THE MINISTRIES MUST BE RE-ORIENTED AWAY FROM OPERATIONAL DECISIONS OF ENTERPRISES TOWARD MORE GENERAL RESEARCH AND TECHNOLOGICAL WORK. THE USSR NOW HAS A THREE-TIERED SYSTEM OF ENTERPRISES OR AMALGAMATIONS AT THE BOTTOM,

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- REPUBLIC AGENCIES IN THE MIDDLE AND CENTRAL
- MACHINERY AT THE TOP. MOST OF THE MIDDLE
- REPUBLIC ORGANIZATION LEVEL WILL BE ELIMINATED.
- IN SUMMARIZING THIS POINT, AGANBEGYAN QUOTED
- LENIN, WHO SUPPOSEDLY SAID THAT, "IF ONE THING
- SPELLS OUR DEATH, IT'S BUREAUCRACY."

13. PRIVATE ENTERPRISE:

RECENT ECONOMIC DECREES, IN AGANBEGYAN'S VIEW, DO NOT IN REALITY DISCOURAGE PRIVATE INDUSTRY; THEY ARE AIMED AGAINST UNEARNED INCOME (NETRUDOVY DOKHOD), MEANING SUCH THINGS AS BRIBERY, EMBEZZLEMENT, ETC. THE NEW DIRECTIVES NOT ONLY DO NOT EXCLUDE PRIVATE ACTIVITY, THEY ENCOURAGE IT. EXPERIMENTS IN VARIOUS REGIONS OF THE COUNTRY MATERIALLY ENCOURAGE SUCH ACTIVITY. AGANBEGYAN INDICATED THAT A DECISION SUPPORTING INDIVIDUAL AND SMALL GROUP ACTIVITY--SMALL COOPERATIVES OR FAMILY GROUPS, PRIMARILY FOR AGRICULTURE --IS BEING PREPARED.

14. PRICE CHANGES:

IN PROVIDING MORE DETAIL ON THE PROSPECTIVE PRICE CHANGES, WHICH HE INDICATED WOULD BE IN PLACE BY 1988, AGANBEGYAN ADMITTED THAT THERE ARE STILL NO AGREED MEASURES ON HAND TO ADDRESS THE PROBLEM. THE CURRENT DEBATE, HE POINTED OUT, FOCUSES ON TWO APPROACHES:

-- IMPROVE THE PRICE SYSTEM NOT BY RAISING THE GENERAL LEVEL OF PRICES, BUT BY CHANGING RELATIVE PRICES FOR CERTAIN GROUPS OF PRODUCTS.

--- RADICALLY ALTER THE GENERAL LEVEL OF PRICES.

15. FINANCIAL CREDIT REFORM:

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IN THIS AREA, AGANBEGYAN INDICATED THE COMMISSION IS CONSIDERING A PROPOSAL TO SHARPLY INCREASE SELF FINANCING, WITH A FIRM USING ITS OWN PROFITS. AT PRESENT, IN AGANBEGYAN'S WORDS, "ONE HAND TAKES MONEY AND ONE HAND GIVES IT, CREATING UPWARD PRESSURE ON THE AMOUNT OF BORROWING."

16. AGANBEGYAN ADMITTED HOWEVER, THERE IS MUCH CONFUSION REGARDING CREDIT. IT NOW OFTEN GOES INTO A HOLE, OFTEN AS CONCEALED SUBSIDIES FOR POOR WORK. ENTERPRISES MUST BE GIVEN INCENTIVES TO TIGHTEN UP. AGAIN QUOTING LENIN, AGANBEGYAN STRESSED THAT,

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"THE STATE SHOULD NOT BE RESPONSIBLE FOR THE ENTERPRISE'S BOOKS." HE WENT ON TO EXPLAIN THAT VARIOUS SUGGESTIONS ARE BEING MADE IN THE FINANCIAL AREA, INCLUDING SHAREHOLDER COMPANIES AND A NATIONAL BANK SYSTEM.

"BUT AS YOU KNOW," HE SAID, "IF YOU HAVE TWO ECONOMISTS / YOU WILL HAVE THREE OPINIONS. / WE NOW HAVE A TASK FORCE WORKING ON THIS ISSUE. WE RECENTLY HAD A TWO-DAY MEETING AND FOR THE FIRST TIME THE MEETING DID NOT END IN A FIGHT."

COMMENT

17. ~~ECONOFFS~~ WHO SAT IN ON BOTH OF AGANBEGYAN'S PRESENTATIONS WERE IMPRESSED BY THE ATTENTIVENESS OF THE SOVIET AUDIENCE, MANY OF WHOM TOOK DETAILED NOTES. / IN HIS NEW ROLE AS ACADEMY ECONOMIC SECRETARY, AGANBEGYAN MAY HAVE USED THE EXCUSE OF AN ECONOMIC SYMPOSIUM TO LAY OUT FOR HIS SOVIET COLLEAGUES HIS REFORMIST VIEWS ON IMPROVING THE COUNTRY'S ECONOMIC PERFORMANCE. HE MAY ALSO HAVE HAD A MANDATE TO IMPRESS UPON HIS U.S. AUDIENCE THE SERIOUSNESS OF THE SOVIET DESIRE TO DEVOTE ITS RESOURCES TO IMPROVING THE ECONOMY.

18. ON SUBSTANCE, AGANBEGYAN TOUCHED MOST OF THE FAMILIAR BASES BUT FAILED TO MENTION GORBACHEV'S RECENT IDEA OF STRESSING MULTIPLE SHIFTS IN FACTORIES. HE DID GO SOMEWHAT FURTHER THAN WE HAVE HEARD BEFORE IN SEVERAL AREAS SUCH AS THE CLOSING OF NON-PROFITABLE ENTERPRISES. HIS COMMENTS ON THE PRICE SYSTEM SUGGEST THERE IS CONTINUED PRESSURE ON THE STATE COMMITTEE ON PRICES TO DO SOMETHING SOONER RATHER THAN LATER IN THIS CRITICAL AREA.

19. OVERALL, HIS PERFORMANCE (ALL IN RUSSIAN) WAS QUITE STRONG AND RE-EMPHASIZED HIS POSITION AS A KEY SPOKESMAN, AT LEAST TO THE WEST, OF THE "MORE ENLIGHTENED" SEGMENT OF THE SOVIET ECONOMIC SPECTRUM. HARTMAN

END OF MESSAGE

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